

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



46TH DISTRICT AGRICULTURAL ASSOCIATION  
SOUTHERN CALIFORNIA FAIR  
PERRIS, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT  
AND FINANCIAL STATEMENTS

AUDIT REPORT #08-045  
FOR THE YEARS ENDED  
DECEMBER 31, 2007 AND 2006

46TH DISTRICT AGRICULTURAL ASSOCIATION  
SOUTHERN CALIFORNIA FAIR  
PERRIS, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT  
AND FINANCIAL STATEMENTS

FOR THE YEARS ENDED  
DECEMBER 31, 2007 AND 2006

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AUDIT REPORT NUMBER

#08-045

46TH DISTRICT AGRICULTURAL ASSOCIATION  
SOUTHERN CALIFORNIA FAIR  
PERRIS, CALIFORNIA

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CALIFORNIA DEPARTMENT OF  
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Brad Scott, President  
Board of Directors  
46th DAA, Southern California Fair  
18700 Lake Perris Drive  
Perris, California 92570

### INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of financial condition of the 46th District Agricultural Association (DAA), Southern California Fair, Perris, California, as of December 31, 2007 and 2006, and the related statements of operations and changes in accountability, and cash flows-regulatory basis for the years then ended. These financial statements are the responsibility of the 46th DAA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Except as discussed in the following paragraph, we conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In 2007, we were unable to apply general auditing procedures without extensive effort to satisfy ourselves about the disclosed amount for Account #228, Deferred Income (stated at \$114,896) as reflected on the accompanying Statement of Financial Condition as of December 31, 2007. As of December 31, 2007, detailed and accurate records to substantiate amounts represented as unearned income in 2007 for 2008 did not exist. The Fair could not provide us the supporting documentation to reconcile the account with the balance in the general ledger.

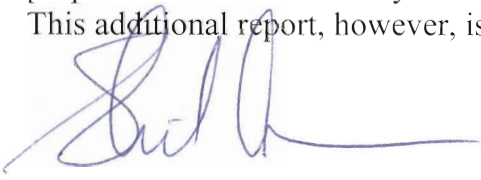
Because of the matter discussed in the third paragraph, in our opinion, except for the amount reported in Account #228, Deferred Income, the 2007 financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the 46th District Agricultural Association, Southern California Fair, as of December 31, 2007 and the results of its operations and changes in accountability, and cash flows-regulatory basis for the year then ended, in conformity with the accounting principles generally accepted in the United States of America.



In our opinion, the 2006 financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the 46th District Agricultural Association, Southern California Fair, as of December 31, 2006 and the results of its operations and changes in accountability, and cash flows-regulatory bases for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The 46th DAA, Southern California Fair has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management Report #08-045, on the 46th DAA's compliance with State laws and regulations and system of internal accounting control, is issued solely for the purpose of additional analysis and should be addressed by the 46th DAA as appropriate. This additional report, however, is not a required part of the basic financial statements.



For Ron Shackelford, CPA  
Chief, Audit Office

July 25, 2008

**46th DISTRICT AGRICULTURAL ASSOCIATION  
SOUTHERN CALIFORNIA FAIR  
PERRIS, CALIFORNIA**

**STATEMENTS OF FINANCIAL CONDITION  
December 31, 2007 and 2006**

	<b>Account Number</b>	<b>2007</b>	<b>2006</b>
<b>ASSETS</b>			
Cash in Bank	111 - 118	\$ 525,105	\$ 775,936
Accounts Receivable, Net	131	164,984	131,222
Construction in Progress	190	11,277	13,000
Land	191	450,358	450,358
Building and Improvements, Net	192	6,472,856	5,916,246
Equipment, Net	193	44,020	44,076
<b>TOTAL ASSETS</b>		<b><u>7,668,600</u></b>	<b><u>7,330,839</u></b>
<b>LIABILITIES AND NET RESOURCES</b>			
<b>Liabilities</b>			
Accounts Payable and Other Liabilities	211-212	117,634	233,230
Current Portion of Long Term Debt	212.2	55,703	58,264
Payroll Liabilities and Other Payables	221 - 226	15,895	1,574
Deferred Income	228	114,896	110,050
Guaranteed Deposits	241	1,877	8,012
Compensated Absences Liability	245	97,969	91,159
Long Term Debt	250	998,054	738,757
<b>Total Liabilities</b>		<b><u>1,402,028</u></b>	<b><u>1,241,046</u></b>
<b>Net Resources</b>			
Reserve for Junior Livestock Auction	251	11,314	33,100
Net Resources - Operations	291	274,801	371,769
Net Resources - Capital Assets, less Related Debt	291.1	5,980,457	5,684,924
<b>Total Net Resources Available</b>		<b><u>6,266,572</u></b>	<b><u>6,089,793</u></b>
<b>TOTAL LIABILITIES AND NET RESOURCES</b>		<b><u>\$ 7,668,600</u></b>	<b><u>\$ 7,330,839</u></b>

**46th DISTRICT AGRICULTURAL ASSOCIATION  
SOUTHERN CALIFORNIA FAIR  
PERRIS, CALIFORNIA**

STATEMENTS OF OPERATIONS/CHANGES IN ACCOUNTABILITY  
Years Ended December 31, 2007 and 2006

	<b>Account Number</b>	<b>2007</b>	<b>2006</b>
<b>REVENUE</b>			
State Allocation	312	\$ 105,000	\$ 105,000
Project Reimbursement	319	293,160	60,000
Donated Fixed Assets	320	96,250	-
Other Operating Revenues	340	-	2,000
Admissions	410	412,333	414,730
Commercial Space	415	96,405	114,461
Carnival	421	215,954	207,456
Concessions	422	139,272	126,776
Exhibits	430	12,061	16,086
Satellite Wagering Facilities- Revenue	450	1,205,888	1,215,332
Fair and Interim Attractions	460	354,893	333,235
Miscellaneous Fair	470	190,444	201,576
JLA - Revenue	476	(358)	14,459
Non-Fair Revenue	480	797,796	880,649
Prior Year Adjustment	490	(33,741)	(4,203)
Other Revenue	495	65,405	11,869
<b>Total Revenue</b>		<b><u>3,950,762</u></b>	<b><u>3,699,425</u></b>
<b>EXPENSES</b>			
Administration	500	457,048	541,138
Maintenance and Operations	520	440,945	458,690
Publicity	540	231,781	190,894
Attendance	560	249,566	242,646
Miscellaneous Fair	570	159,756	130,286
JLA - Expense	576	21,428	19,316
Premiums	580	35,020	31,297
Exhibits	630	299,343	275,042
Satellite Wagering Facilities- Expense	650	867,447	894,470
Attractions - Fairtime	660	616,614	615,473
Equipment Expense	723	8,189	-
Prior Year Adjustments	800	(26,912)	54,844
Cash Over/Under	850	238	4,053
Depreciation Expense	900	413,520	376,882
Other Operating Expenditures	945	-	2,000
<b>Total Expenses</b>		<b><u>3,773,983</u></b>	<b><u>3,837,031</u></b>
<b>RESOURCES</b>			
Net Change - Income / (Loss)		176,779	(137,606)
Resources Available, January 1		6,089,793	6,227,399
<b>Resources Available, December 31</b>		<b><u>\$ 6,266,572</u></b>	<b><u>\$ 6,089,793</u></b>

**46th DISTRICT AGRICULTURAL ASSOCIATION  
SOUTHERN CALIFORNIA FAIR  
PERRIS, CALIFORNIA**

**STATEMENTS OF CASH FLOWS - REGULATORY BASIS  
Years Ended December 31, 2007 and 2006**

	<u><b>2007</b></u>	<u><b>2006</b></u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Excess of Revenue Over Expenses (Expenses Over Revenue)	\$ 176,779	\$ (137,606)
Adjustment to Reconcile Excess of Revenue Over Expenses to Net Cash Provided by Operating Activities:		
(Increase) Decrease in Accounts Receivable	(33,762)	16,428
Increase (Decrease) in Account Payable and Accrued Expenses	(115,596)	(137,638)
Increase (Decrease) in Deferred Income	4,845	20,230
Increase (Decrease) in Taxes Payable	14,321	(6,527)
Increase (Decrease) in Guaranteed Deposits	(6,134)	140
Increase (Decrease) in Leave Liability	6,810	(41,486)
Total Adjustments	<u>(129,516)</u>	<u>(148,853)</u>
<b>Net Cash Provided (Used) by Operating Activities</b>	<u><b>47,263</b></u>	<u><b>(286,459)</b></u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
(Increase) Decrease in Construction in Progress	1,723	(13,000)
(Increase) Decrease in Buildings & Improvements, Net	(556,609)	291,142
(Increase) Decrease in Equipment, Ne	56	32,100
<b>Net Cash Provided (Used) by Investing Activities</b>	<u><b>(554,830)</b></u>	<u><b>310,242</b></u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Increase (Decrease) in Long-Term Liability	256,736	(57,010)
<b>Net Cash Provided (Used) by Financing Activities</b>	<u><b>256,736</b></u>	<u><b>(57,010)</b></u>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>(250,831)</b>	<b>(33,228)</b>
Cash at Beginning of Year	775,936	809,164
<b>CASH AT END OF YEAR</b>	<u><u><b>\$ 525,105</b></u></u>	<u><u><b>\$ 775,936</b></u></u>



**46TH DISTRICT AGRICULTURAL ASSOCIATION  
SOUTHERN CALIFORNIA FAIR  
PERRIS, CALIFORNIA**

**NOTES TO THE FINANCIAL STATEMENTS**

December 31, 2007 and 2006

**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organization - The 46th District Agricultural Association (DAA) was formed in 1936, for the purpose of sponsoring, managing, and conducting the Hemet Utility Turkey Show each year in Hemet, California. In 1947, the Fair became known as the Farmer's Fair. In 1986, the District acquired a site at the Lake Perris State Recreation Area. In 1987, the first fair was held at the new site. In 2003, the Fair became known as the Southern California Fair. The State of California, Department of Food and Agriculture, through the Division of Fairs and Expositions provides oversight responsibilities to the DAA. The DAA is subject to the policies, procedures, and regulations set forth in the California Government Code, California Business and Professions Code, Public Contracts Code, Food and Agricultural Code, State Administrative Manual, and the Accounting Procedures Manual established by the Division of Fairs and Expositions.

The State of California allocates funds annually to the DAAs to support operations and acquire fixed assets. However, the level of State funding varies from year to year based on budgetary constraints. The Division of Fairs and Expositions determines the amount of the allocations.

Basis of Accounting - The accounting policies applied to and procedures used by the DAA conform to accounting principles applicable to District Agricultural Associations as prescribed by the State Administrative Manual and the Accounting Procedures Manual. The DAA's activities are accounted for as an enterprise fund. The Governmental Accounting Standards Board defines an enterprise fund as a fund related to an organization financed and operated in a manner similar to a private business enterprise where the intent is to recover the costs of providing goods or services to the general public primarily through user charges.

The DAA's financial activities are accounted for using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board. Thus, revenues are reported in the year earned rather than collected, and expenses are reported in the year incurred rather than paid.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes – The DAA is a state agency and therefore, is exempt from paying taxes on its income.

Cash and Cash Equivalents – The DAA's cash and cash equivalents are separately held in various local banks. The Financial Accounting Standards Board defines cash equivalents as short-term, highly liquid investments that are both: (1) readily convertible to known amounts of cash; and (2) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. The cost of all cash equivalents of the DAA approximates market value.

The California State Treasury makes available the Local Agency Investment Fund (LAIF) through which local governments may pool investments. Each governmental entity may invest up to \$40,000,000 in the fund. Investments in the LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest.

In accordance with the Accounting Procedures Manual, the DAA is authorized to deposit funds in certificates of deposit and interest bearing accounts. However, Government Code Sections 16521 and 16611 require the bank or savings and loan association to deposit, with the State Treasurer, securities valued at 110 percent of the uninsured portion of the funds deposited with the financial institution. Government Code Sections 16520 and 16610 provide that security need not be required for that portion of any deposit insured under any law of the United States, such as FDIC and FSLIC.

Property and Equipment - Construction-in-progress, land, buildings and improvements, and equipment are acquired with operating funds and funds allocated by the State. Any acquired assets, if greater than \$5,000 and a useful life of one or more years, are capitalized and depreciated. Buildings and improvements are depreciated over a period of 30 years, and purchases of equipment are depreciated over five years. Amounts spent on repair and maintenance costs are expensed as incurred by the Fair. Furthermore, donated building improvements, and equipment are recorded at their fair market value at the date of the gift. This recorded basis is depreciated over the useful lives identified above. Amounts spent on projects that have not been placed in service are recorded in Account #190, Construction-in-Progress and no depreciation is recorded on Construction-in-Progress until the project is completed and the asset is placed in service.

Sales Taxes – The State of California imposes a sales tax of 7.75% on all of the DAA's sales of merchandise. The DAA collects that sales tax from customers and remits the entire amount to the state Board of Equalization. The DAA's accounting policy is to exclude the tax collected and remitted to the State from revenues and cost of sales.

Compensated Absences - Pursuant to Statement No. 16 of the Governmental Accounting Standards Board, State and local governmental entities are required to report the liability for compensated absences. Compensated absences are absences for which permanent employees will be paid, such as vacation, personal leave, and compensatory time off. The compensated absences liability is calculated based on the pay rates in effect at the balance sheet date.

**NOTE 2      CASH AND CASH EQUIVALENTS**

The following list of cash and cash equivalents were held by the DAA as of December 31:

	<u>2007</u>	<u>2006</u>
Petty Cash & Change Funds	\$ 66,632	\$ 77,680
Cash in Bank – Operating	(83,041)	(23,920)
Cash in Bank – Premium	1,915	3,332
Cash in Bank – Payroll	34,510	41,053
Cash in Bank – JLA	13,155	24,086
Cash in Bank – ATM	124,404	39,487
Cash in Bank – Time Deposits	<u>367,530</u>	<u>614,218</u>
 Total Cash and Cash Equivalents	 <u><u>\$ 525,105</u></u>	 <u><u>\$ 775,936</u></u>

**NOTE 3      ACCOUNTS RECEIVABLE**

The DAA is required to record an allowance for doubtful accounts based on estimates of collectibility.

	<u>2007</u>	<u>2006</u>
Accounts Receivable - Trade	\$ 186,381	\$ 148,666
Allowance for Doubtful Accounts	<u>( 21,397)</u>	<u>( 17,444)</u>
 Accounts Receivable – Net	 <u><u>\$ 164,984</u></u>	 <u><u>\$ 131,222</u></u>

**NOTE 4      PROPERTY AND EQUIPMENT**

Buildings and improvements, and equipment at December 31, 2007 and 2006 consist of the following:

	<u>2007</u>	<u>2006</u>
Building & Improvements	\$11,629,525	\$10,685,265
Less: Accumulated Depreciation	<u>(5,156,669)</u>	<u>(4,769,019)</u>
Building & Improvements - Net	<u>\$ 6,472,856</u>	<u>\$ 5,916,246</u>
 Equipment	 \$ 343,310	 \$ 317,497
Less: Accumulated Depreciation	<u>(299,290)</u>	<u>(273,421)</u>
Equipment - Net	<u>\$ 44,020</u>	<u>\$ 44,076</u>

**NOTE 5      LONG-TERM DEBT**

The DAA has entered into long-term loan agreements with California Construction Authority (CCA) to finance various capital improvement projects on the fairgrounds. The terms of the agreement are as follows:

**Community Building Loan:**

Loan Amount	\$ 914,175
First Payment Date	August 1998
Payment Amount	\$ 5,898
Duration of Loan	240 Months
Interest Rate	4.73%
Total Outstanding at 12/31/07	\$ 720,550
 Current Portion at 12/31/07	 \$ 37,496
Long-Term Portion at 12/31/07	\$ 683,054

**Raceway Bleachers Loan:**

Loan Amount	\$ 98,925
First Payment Date	October 1999
Payment Amount	\$ 1,386
Duration of Loan	84 Months
Interest Rate	4.73%
Total Outstanding at 12/31/07	\$ 13,561
 Current Portion at 12/31/07	 \$ 13,561

Utility Tractor Loan:

Loan Amount	\$ 22,945
First Payment Date	December 2003
Payment Amount	\$ 433
Duration of Loan	60 Months
Interest Rate	5.0%
Total Outstanding at 12/31/07	\$ 4,646
Current Portion at 12/31/07	\$ 4,646

Administration Building Loan:

Loan Amount	\$ 315,000
First Payment Date	To be determined
Payment Amount	\$ 2,410
Duration of Loan	180 Months
Interest Rate	4.5%
Total Outstanding at 12/31/07	\$ 315,000

NOTE 6

**RETIREMENT PLAN**

Permanent employees of the DAA are members of the Public Employees' Retirement System (PERS), which is a defined benefit contributory retirement plan. The retirement contributions made by the DAA and its employees are actuarially determined. Contributions plus earnings of the Retirement System will provide the necessary funds to pay retirement costs when accrued. The DAA's share of retirement contributions is included in the cost of administration. For further information, please refer to the annual single audit of the State of California.

Retirement benefits fully vest after five years of credited service for Tier I employees. Retirement benefits fully vest after ten years of credited service for Tier II employees. Upon separation from State employment, members' accumulated contributions are refundable with interest credited through the date of separation. The DAA, however, does not accrue the liability associated with vested benefits.

The Alternate Retirement Program (ARP) is a retirement savings program that certain employees hired on or after August 11, 2004 are automatically enrolled in for their first two years of employment with the State of California. ARP is administered by the Savings Plus Program with the Department of Personnel Administration and invests funds in a fixed-income fund. ARP provides two years of retirement savings (five percent of paycheck amount each month) in lieu of two years of service credit. At the end of the two-year period, the deductions are placed in CalPERS and the retirement service credit begins.

Temporary, 119-day, employees of the DAA participate in the Part-Time, Seasonal, Temporary (PST) Retirement Plan. The PST Retirement Plan is a mandatory deferred compensation plan under which 7.5% of the employee's gross salary is deducted before taxes are calculated. These pre-tax dollars are placed in a guaranteed savings program. The employee has the option of leaving these funds on deposit upon separation, or requesting a refund.

NOTE 7

**RECLASSIFICATION**

Certain prior-year balances have been reclassified to conform to current year presentation. This reclassification did not have an effect on net income.

**46TH DISTRICT AGRICULTURAL ASSOCIATION  
SOUTHERN CALIFORNIA FAIR  
PERRIS, CALIFORNIA**

**REPORT DISTRIBUTION**

<u>Number</u>	<u>Recipient</u>
1	President, 46th DAA Board of Directors
1	Chief Executive Officer, 46th DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



46TH DISTRICT AGRICULTURAL ASSOCIATION  
SOUTHERN CALIFORNIA FAIR  
PERRIS, CALIFORNIA

MANAGEMENT REPORT #08-045

YEAR ENDED DECEMBER 31, 2007



46TH DISTRICT AGRICULTURAL ASSOCIATION  
SOUTHERN CALIFORNIA FAIR  
PERRIS, CALIFORNIA

MANAGEMENT REPORT  
YEAR ENDED DECEMBER 31, 2007

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Audit Chief  
Assistant Audit Chief  
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MANAGEMENT REPORT NUMBER  
#08-045

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CALIFORNIA DEPARTMENT OF  
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Brad Scott, President  
Board of Directors  
46th DAA, Southern California  
18700 Lake Perris Drive  
Perris, California 92570

In planning and performing our audit of the financial statements of the 46th District Agricultural Association (DAA), Southern California Fair, Perris, California, for the year ended December 31, 2007, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

In addition, this Management Report includes: (1) matters other than those related to the internal control structure which came to our attention that could, in our judgment, either individually or in the aggregate, have a significant effect on the entity's financial reporting process (e.g., accounting errors, significant audit adjustments, etc.), and (2) areas of non-compliance by the Southern California Fair with respect to State laws and regulations, with the Accounting Procedures Manual, and with established policies and procedures.

In accordance with Government Code Section 13402, Fair managers and Board of Directors are responsible for the establishment and maintenance of a system or systems of internal accounting and administrative control within their agencies. This responsibility includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions.

Due to the small size of the 46th DAA's office staff, it is not practical to have the degree of segregation of duties possible in a larger organization. Therefore, the Board of Directors must consider this when determining the extent that the Board becomes involved in operations to adequately safeguard the 46th DAA's assets. The system of internal control should provide the Board of Directors and management reasonable, but not absolute,



assurance that: (1) only authorized transactions are executed; (2) transactions are properly recorded in the accounting records; and (3) material errors and irregularities that may occur, will be detected by the 46th DAA in a timely manner during the normal course of operations. In this regard, it is particularly important that the Board review and approve significant transactions and critically review monthly financial information. The 46th DAA's minimum staffing was one factor considered in determining the nature, timing, and extent of the tests to be performed on the 46th DAA's accounting procedures, records, and substantiating documents.

During our audit of the internal control structure of the 46th DAA and compliance with state laws and regulations, we identified six areas with reportable conditions that are considered weaknesses in the Fair's operations: deferred income, delegated/opportunity purchases, unrecorded liability, food & beverage expenditures, standard 210 agreements, and timekeeping for personnel. We have provided 10 recommendations to improve the operations of the Fair. The Fair must respond in writing on how these recommendations will be implemented.

We also identified additional areas containing non-reportable conditions. These conditions and accompanying recommendations are not considered significant weaknesses. We have included these items solely for the benefit of the 46th DAA's management. We suggest the Fair implement the recommendations as soon as practicable. The Fair, however, is not required to provide written responses to the recommendations for non-reportable conditions.

## REPORTABLE CONDITIONS

### ACCOUNTING FOR DEFERRED INCOME

The Fair did not research and adjust Account # 228, Deferred Income, prior to closing its accounting records and preparing the year-end financial statements. Furthermore, the Fair did not maintain detailed supporting accounting records that reconciled with the amount reported at year-end. As a result, our office cannot determine whether the amount reported of \$114,896 is fairly stated as of December 31, 2007.

Generally Accepted Accounting Principles (GAAP), sound accounting practices and business practices, as well as the Accounting Procedures Manual (APM), dictate the proper matching of revenues and expenditures in the correct accounting period. Since deferred income represents unearned income on the Fair's balance sheet, errors in the posting of activity to this account may materially affect the results of operations. Since we are unable to satisfy ourselves regarding the balance in Account #228, Deferred Income, we have issued a qualified opinion on the Fair's financial statements for this account.

#### *Recommendations*

- 1. The Fair should make it a priority to research and determine the correct balance for Account #228, Deferred Income. The necessary correcting journal entries should be made to ensure the account is fairly stated.*
- 2. The Fair should ensure all amounts reported as liabilities in the year-ending financial statements, including amounts reported in Account #228, are supported with detailed accounting records prior to closing the accounting period and preparing the year-ending financial statements.*

### DELEGATED AND OPPORTUNITY PURCHASES

The Fair did not comply with existing reporting and documentation requirements when making and claiming opportunity purchases. The Fair stated that most of their purchases made during 2007 were opportunity purchases. However, our office noted that the Fair did not separately identify the opportunity purchases on its purchase order log, as required in the APM and the Public Contract Code (PCC). PCC Section 10321 states "that local businesses often provide opportunity purchases to local fairs that, for similar things available through the state purchasing program, may be purchased locally at a price equivalent to or less than that available through the State purchasing program." Therefore, to claim an opportunity purchase, the Fair must separately identify these opportunity purchases and demonstrate their compliance with the PCC.

*Recommendation*

3. *The Fair should follow the guidelines in the APM and maintain a detailed purchasing log identifying all opportunity purchases. In addition, the Fair should follow the guidelines as set forth in the PCC § 10321 when making and claiming opportunity purchases.*

**UNRECORDED LIABILITY**

The Fair had unrecorded liabilities of \$11,931 at year-end relating to various operating expenses invoiced in 2007 that were subsequently paid in 2008. As a result, the Fair's liabilities were understated and the Fair's net resources were overstated by the same amount on the 2007 statement of operations (STOP). GAAP and the accrual basis of accounting require the recognition of expenses in the period incurred. The purpose of accruing payables at year-end is to reflect expenses in the proper accounting period.

*Recommendation*

4. *The Fair should comply with GAAP by ensuring that accounts payable at year-end include all known payables, including estimates of utilities, even though billings have not yet been received. These procedures will help ensure that the Fair's financial statements are fairly presented at year-end.*

**FOOD AND BEVERAGE EXPENDITURES**

During our analysis of expenditures selected for testing, we noted that the Fair did not maintain an adequate level of support for the \$13,341 of expenditures for meals and beverages. As a result, we cannot determine whether the expenditures for these meals were appropriate. The Fair did not specify the names of recipients of the meal, the business purpose of incurring the expense, nor justify the expenditures by specifying the topics discussed or the benefits expected to arise to the Fair. This information is required by the Division of Fairs & Expositions (F&E) APM to adequately support meals purchased for public relations or promotional purposes.

*Recommendation*

5. *The Fair should document the names of all recipients of the item or benefit and the purpose of the expenditures on meals and beverages. A claim must justify providing food or a meal by specifying the topics discussed during the event and the necessity of or the benefits expected to accrue to the fair.*

**STANDARD 210 AGREEMENTS**

An examination of the Fair's standard 210 agreements revealed the following:

- a. The Fair failed to forward two hazardous contracts and four non-hazardous contracts over \$15,000 and up to \$75,000 to California Fair Services Authority (CFSA) for liability insurance review and approval. According to the F&E Contract Manual, Section 1.20, Contract Review and Approval, all Fairs are required to forward all

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Perris, California

hazardous contracts up to \$75,000 and non-hazardous contracts over \$15,000 and up to \$75,000 for which liability insurance is required to CFSA for approval. Approval should be obtained prior to the contract's effective date.

- b. The Fair did not always maintain completed Standard 210 agreements. Our office noted two instances that the Fair did not obtain signatures from either party to indicate agreement of contract terms. In order for a contract to be binding, it should be signed by both parties.
- c. The Fair did not always prepare or issue an Internal Revenue Service (IRS) Miscellaneous Income Form 1099 to contractors receiving \$600 or more for services performed. Our office noted two independent contractors who were paid \$4,500 and \$875 each without an IRS form 1099 on file. Failure to issue 1099s significantly reduces Federal and State income tax compliance by the recipient of the payments. According to IRS standards, the Fair is required to complete Form 1099 for any independent contractor who earned at least \$600 in a calendar year.

*Recommendations*

- 6. *The Fair should comply with the F&E Contract Manual Section 1.20 and forward all hazardous contracts and non-hazardous contracts over \$15,000 up to \$75,000 to CFSA for review and approval.*
- 7. *The Fair should ensure that all Standard 210 Agreements are fully completed. This includes signatures by both parties on the contract.*
- 8. *The Fair should comply with the IRS requirements that independent contractors who earn \$600 or more be provided an IRS Form 1099-MISC at year-end.*

**TIMEKEEPING FOR PERSONNEL**

The Fair did not require two temporary employees to complete any time cards in 2007. The Fair indicated that the temporary employees were paid a salary. It appears that the Fair did not track these employees' actual days or hours worked. In consideration of the APM regarding temporary employees and the 119-day limitation placed on the Fair, it is necessary for a temporary employee to complete a time card that can be reviewed and signed by a supervisor, and ultimately used to track the number of days each temporary employee works in a calendar year.

The Fair does not require their permanent employees to complete a STD 634, Absence and Additional Time Worked, in order to record those hours used and earned in excess of hours regularly worked. Additionally, the employees' supervisors do not always sign the timecards that would indicate review and approval for the current pay period.

*Recommendations*

- 9. *The Fair should comply with APM Section 4.1 requiring maintenance of time cards for all employees to ensure compliance with labor laws. Furthermore, each time card*

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*should be reviewed and approved by the employee's supervisor to ensure the time reported is accurate.*

- 10. The Fair should require that all permanent employees complete a STD 634, Absence and Additional Time Worked, in order to adequately track the use of leave time or the earning of overtime.*



## NON-REPORTABLE CONDITIONS

### ACCOUNTING FOR FIXED ASSETS

Our office noted the Fair overstated its fixed assets and overall net resources by capitalizing the storage containers purchased in 2007. Although the total cost of the storage containers is \$8,497, the individual cost of each unit is only \$1,750, which does not meet the State of California's capitalization criteria. The Department of Finance (DOF) capitalization criteria for assets requires State agencies to capitalize only items with an acquisition cost exceeding \$5,000 and a useful life of one year. Any items that do not meet the State's capitalization criteria should be expensed in the year they were acquired.

#### *Recommendation*

*The Fair should consider the asset capitalization criteria as established by the DOF of costing \$5,000 or more, and a useful life of one year or greater prior to recording newly acquired assets in order to avoid overstatements within the statement of operations.*

### INDEPENDENT CONTRACTORS

A review of the Standard 210 Agreements revealed that the Fair did not complete the Employment Development Department (EDD) DE 542 form for independent contractors as required by the State Senate Bill 542. The Fair is required to report to EDD within 20 days of paying or contracting for \$600 or more with an independent contractor in any calendar year by submitting Form DE 542. According to EDD, any business or government entity that is required to file a federal Form 1099-MISC for services received from an independent contractor is required to report specific independent contractor information to EDD. This information is used by EDD to locate parents who are delinquent in their child support obligations.

#### *Recommendation*

*The Fair should comply with the State Senate Bill 542 that requires entities to report specified information to EDD on independent contractors within 20 days of either making payments totaling \$600 or more or entering into a contract in any calendar year, whichever is earlier, to avoid penalty for failure to comply within the required timeframe.*

### ALLOWANCE FOR DOUBTFUL ACCOUNTS

The Fair did not establish an allowance for doubtful accounts for all outstanding accounts receivable balances that are uncollectible. An allowance for doubtful accounts should be recognized in the accounting records when an account is determined uncollectible. A review of the accounts receivable balances in the Fair's general ledger indicated \$4,201 is doubtful. Account #131.2, Allowance for Doubtful Accounts, was not increased accordingly

for this amount. Therefore, the CDFA will make an adjustment to the financial statements at December 31, 2007 to accurately report the related amount for the Fair's allowance for doubtful accounts. This adjustment presents the Fair's assets more accurately.

*Recommendation*

*The Fair should ensure the accounts receivable balance at year-end only represents collectible accounts receivable balances. An allowance for doubtful accounts adjustment should be recorded for all outstanding receivables that are deemed uncollectible.*

## **COMPENSATED ABSENCE LIABILITY**

The Fair did not correctly adjust Account #245, Compensated Leave Liability, to reflect the appropriate amount as compared to the employee leave balances at year-end. Our audit determined that the liability for compensated absences was overstated by \$2,473. According to the APM, this balance should be updated annually prior to preparing the year-end financial records.

*Recommendation*

*The Fair should review employee leave balances at year-end to ensure that account #245, Compensated Leave Liability, reflects the appropriate liability. This account should be adjusted annually.*

## **ADMISSIONS REVENUE, CREDENTIAL & COURTESY PASS REPORTING**

An audit of the admissions revenue, credential & courtesy passes revealed the following:

- a. The Fair contracted with an outside service to perform all admissions revenue reporting for their 2007 fair-time; however the contractor did not provide daily ticket seller's summary reports for each of the days the fair was in operations causing a lack of verifiable sums used in the 2007 Fair Statistics as presented within the statement of operations.
- b. The Fair pre-sold their fair-time tickets at a discount through their administrative office using blank ticket stock and a KIS ticket printing machine, and did not adequately perform an ending inventory of the blank ticket stock in order to provide a verifiable amount of presale tickets sold.
- c. The Fair is in the practice of using their pre-numbered credential tickets as both credentials and courtesy passes, and did provide an ending inventory for those credential tickets. The Fair reported the distribution of 10,239 credentials within their 2007 Fair Statistics that matched the ending ticket inventory, although there was no supporting documentation for the 2,245 courtesy passes reported as distributed.

*Recommendations*

*The Fair should comply with APM Section II §1Admissions Reporting that enumerates the pre-event, event, and post-event procedures to be performed.*

*The Fair should consider ordering separate ticket stock for their courtesy passes so as to provide a more adequate method of accounting for courtesy pass distribution.*

**DISTRICT AGRICULTURAL ASSOCIATION'S RESPONSE**



# LAKE PERRIS FAIRGROUNDS

STATE OF CALIFORNIA

## 46<sup>TH</sup> DISTRICT AGRICULTURAL ASSOCIATION

18700 LAKE PERRIS DRIVE • PERRIS, CALIFORNIA 92571

Telephone (951) 657-4221 • FAX (951) 657-5412

[www.SoCalFair.com](http://www.SoCalFair.com) • [info@SoCalFair.com](mailto:info@SoCalFair.com)

February 17, 2009

State of California  
Department of Food & Agriculture  
Audit Office  
Mr. Ron Shackelford, CPA  
1220 N. Street, Room 344  
Sacramento, CA 95814

Mr. Shackelford:

Thank you for the draft of the 2007 audit report for the 46<sup>th</sup> District Agricultural Association, home of the Southern California Fair. The audit recommendations continue to assist the staff, directors, and myself in being more aware of our responsibilities, statutes, laws, and regulations and how we may comply.

Attached please find our responses for reportable conditions for review. We apologize for our untimely response; the draft report arrived just prior to our fair and was not followed-up upon at that time. Rest assured future responses will be filed timely.

Thank you and your staff for their assistance, guidance, and recommendations for improvements at the 46<sup>th</sup> D.A.A. If you have additional needs please feel free to contact us.

Sincerely,

Vince Agnifili, CEO/Secretary-Manager

Linda Thompson, Board President 2008

Brad Scott, Board President 2009

cc: Board of Directors  
Division of Fairs and Expositions

## **REPORTABLE CONDITIONS**

### **ACCOUNTING FOR DEFERRED INCOME**

#### Recommendation/Response

1. The fair will make it a priority to determine the correct balance for Account #228, Deferred Income. Correcting entries will be made to ensure the account is fairly stated.
2. The fair will ensure amounts reported in the year-ending financial statements, including amounts reported in Account #228, are supported with detailed accounting records prior to closing the accounting period and preparing the year-ending financial statements.

### **DELEGATED AND OPPORTUNITY PURCHASES**

#### Recommendation/Response

3. The Fair extensively utilizes the opportunity purchase program and will maintain a detailed purchase log identifying all opportunity purchases. We will review and follow the guidelines as set forth when making and claiming opportunity purchases.

### **UNRECORDED LIABILITY**

#### Recommendation/Response

4. The Fair will comply with GAAP by ensuring that accounts payable at year-end include all known payables, even though billings have not been received.

## **FOOD AND BEVERAGE EXPENDITURES**

### **Recommendation/Response**

5. The amount of \$13,341 was not discussed in the exit conference and the charging of meals in the Sports Pavilion was only identified as a "discussion item" at that time. The Fair now requires all food and beverage expenses incurred in the Sports Pavilion to be documented. The Fair recognizes the requirement to adequately support purchases with documentation and will improve our documentation process.

## **STANDARD 210 AGREEMENTS**

### **Recommendation/Response**

6. The Fair will forward hazardous contracts and non-hazardous contracts to California Fair Services Authority (CFSA) for liability insurance review and approval.
7. Contracts will be monitored for completeness and compliance.
8. The Fair understands that Form 1099 needs to be issued for any independent contractor that earns over \$600 in a calendar year. The exceptions were a result of a data base error that we will continue to monitor in the future.

## **TIMEKEEPING FOR PERSONNEL**

### **Recommendation/Response**

1. The Fair will comply with APM Section 4.1 requiring maintenance of time cards for all employees to ensure compliance with labor laws. We are unable to reconstruct 2008 time records for two employees; in 2009 this will be corrected. Time cards are reviewed and approved by employee's supervisor.
2. Permanent employees are required to complete STD 634 to adequately track the use of leave time or the earning of overtime.

## **NON-REPORTABLE CONDITIONS**

### **ACCOUNTING FOR FIXED ASSETS**

#### Recommendation/Response

The Fair considered the containers a "storage system" and elected to conservatively recognize the purchase; the fair understands the State of California's capitalization criteria and reclassified the purchase as an expense.

### **INDEPENDENT CONTRACTORS**

#### Recommendation/Response

The Fair will endeavor to comply with State Senate Bill 542 in the future.

### **ALLOWANCE FOR DOUBTFUL ACCOUNTS**

#### Recommendation/Response

The Fair will establish an allowance for doubtful accounts and make the appropriate transfers prior to yearend closing.

### **COMPENSATED ABSENCE LIABILITY**

#### Recommendation/Response

The Fair annually adjusts the Compensated Leave Liability account to reflect the appropriate liability; the audit identified a posting error.

### **ADMISSION REVENUE, CREDENTIAL & COURTESY PASS REPORTING**

#### Recommendation/Response

- a. The Fair contracted with a new outside service in 2008 to provide daily ticket seller's summary reporting.
- b. KIS machine ticket inventory controls will be in place.
- c. For 2009 the fair ordered separate stock to identify credential and courtesy admissions.



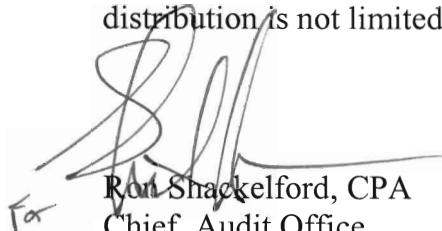
### **CDFA EVALUATION OF RESPONSE**

A draft copy of this report was forwarded to the management of the 46th DAA, Southern California Fair, for its review and response. We have reviewed the response and it satisfactorily addresses the findings contained in this report.

### DISPOSITION OF AUDIT RESULTS

The findings in this management report are based on fieldwork that my staff performed between July 14, 2008 and July 25, 2008. My staff met with management on July 25, 2008 to discuss the findings and recommendations, as well as, other issues.

This report is intended for the information of the Board of Directors, management, and the Division of Fairs and Expositions. However, this report is a matter of public record and its distribution is not limited.

For

Ron Shackelford, CPA  
Chief, Audit Office  
July 25, 2008

**REPORT DISTRIBUTION**

<u>Number</u>	<u>Recipient</u>
1	President, 46th DAA Board of Directors
1	Chief Executive Officer, 46th DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office